

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Mt. Morris, Michigan</u>	County Genesee
Audit Date June 30, 2004	Opinion Date October 8, 2004	Date Accountant Report Submitted To State: December 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Mt. Morris, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Mt. Morris, Michigan

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## Independent Auditor's Report

To the City Council  
City of Mt. Morris, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mt. Morris, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mt. Morris, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mt. Morris, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council  
City of Mt. Morris, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mt. Morris, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

October 8, 2004

# City of Mt. Morris, Michigan

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## Management's Discussion and Analysis

### Using this Annual Report

The annual report consists of a series of narratives and financial statements. This narrative is intended to serve as an introduction to the City of Mt. Morris' (the "City") basic financial statements. The basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplemental information.

The format of the annual report was modified in 2004 to comply with the reporting requirements of Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a long-term view of the City's finances. The fund financial statements, which follow the above-mentioned statements, illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund financial statements report the City's operations in more detail than the government-wide financial statements.

### Government-wide Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** - Most of the City's basic services are included here such as police, fire, public works, recreation, and general administration. Property taxes, state-shared revenues, charges for services, and grants provide the majority of the funding.
- **Business-type activities** - The City charges user fees to customers to cover costs of providing water and sewer services.
- **Component unit** - Downtown Development Authority (DDA) activities - The DDA has a separate property tax millage and captures a portion of other community assessed property taxes to properly develop and upkeep designated areas within the City.

# City of Mt. Morris, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by State law. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash, and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balance for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Development Grant Fund, and the Major Streets Fund, all of which are considered to be major funds. Data for the other eight governmental funds is combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- Proprietary funds - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds accumulate and allocate costs internally among various functions. The City uses Internal Service Funds to account for its vehicles and machinery equipment used by all funds within the City and to account for retiree benefit expenditures. Because these programs predominantly benefit governmental rather than business-type functions, they have been consolidated within the governmental activities in the government-wide financial statements.



# City of Mt. Morris, Michigan

## Management's Discussion and Analysis (Continued)

- Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

### Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. In addition, this section includes the budgetary comparison statements for the General Fund, Major Special Revenue Funds, and the Major Capital Projects Fund.

### Other Supplemental Information

The combining fund statements referred to earlier, as well as the City's combining Internal Service Funds, are presented immediately following the required supplemental information section of this report.

### The City of Mt. Morris, Michigan as a Whole

The City's combined total net assets increased 3 percent from a year ago, increasing from \$3.2 million to \$3.3 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$.2 million in total net assets, or 1.8 percent, during fiscal year 2004. The increase in total net assets is attributed to enhanced budgeted expenditure controls and the receipt of inflationary increases in property tax revenue. Business-type activities experienced a \$.1 million decrease in total net assets. While there was an increase in overall revenue due to the result of the City's water and sewer rate restructuring implemented during fiscal year 2004 to become more compliant with state regulations, the City's increased expenditures due to increased water and sewage costs to the City exceeded the revenue increases. The increased revenue and cost controls implemented will help to cover increased operating expense and expected cost of future needed repairs to the City's water and sewer infrastructure. In addition, current year revenue included minimum contributions of tap-in fees and no water and sewer lines contributed by developers due to limited growth during fiscal 2004.

# City of Mt. Morris, Michigan

## Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2004 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current assets	\$ 0.9	\$ 1.0	\$ 0.4	\$ 0.5	\$ 1.3	\$ 1.5
Noncurrent assets	2.3	2.1	3.0	3.0	5.3	5.1
Total assets	3.2	3.1	3.4	3.5	6.6	6.6
<b>Liabilities</b>						
Current liabilities	0.2	0.3	0.2	0.2	0.4	0.5
Long-term liabilities	1.7	1.7	1.2	1.2	2.9	2.9
Total liabilities	1.9	2.0	1.4	1.4	3.3	3.4
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	0.2	-	1.6	1.6	1.8	1.6
Restricted	0.5	0.4	0.1	0.1	0.6	0.5
Unrestricted	0.6	0.7	0.3	0.4	0.9	1.1
Total net assets	<u>\$ 1.3</u>	<u>\$ 1.1</u>	<u>\$ 2.0</u>	<u>\$ 2.1</u>	<u>\$ 3.3</u>	<u>\$ 3.2</u>

Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, changed from \$.7 million at June 30, 2003 to \$.6 million at June 30, 2004. Unrestricted net assets for business-type activities decreased by \$.1 million at June 30, 2004.

# City of Mt. Morris, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets (in millions of dollars) for the year ended June 30, 2004:

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 0.5	\$ 0.9	\$ 1.4
Operating grants and contributions	0.3	-	0.3
General revenue:			
Property taxes	0.7	-	0.7
State-shared revenue	0.5	-	0.5
Miscellaneous	0.2	-	0.2
Total revenue	2.2	0.9	3.1
<b>Program Expenses</b>			
General government	0.5	-	0.5
Public safety	0.8	-	0.8
Public works	0.7	-	0.7
Water and sewer	-	1.0	1.0
Total program expenses	2.0	1.0	3.0
<b>Change in Net Assets</b>	<b>\$ 0.2</b>	<b>\$ (0.1)</b>	<b>\$ 0.1</b>

### Governmental Activities

Revenues for the City's governmental activities totaled \$2.2 million in 2004. Property taxes were 32 percent, or \$.7 million. State-sources totaled 22 percent, or \$.5 million. Charges for service support programs such as fire service calls, tax collection costs, solid waste collection costs, and weed and brush control amounted to 22 percent, or \$.5 million. In addition, operating grants and contributions represent block grant monies received from the federal government and charges for the use of Internal Service Fund vehicles amounted to 14 percent, or \$.3 million.

Expenditures for the City's governmental activities totaled \$2.0 million in 2004. General governmental expenditures were 25 percent, or \$.5 million. Public safety expenditures totaled 40 percent, or \$.8 million, and public work expenditures were 35 percent, or \$.7 million.

During the year, the City continued meeting the actuarial required contributions for its defined benefit pension system. This required contribution increased approximately 224 percent, or \$49,045 from June 30, 2003 to June 30, 2004.

# **City of Mt. Morris, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City has one business-type activity, the Water and Sewer Fund. Water and sewer operations are funded directly by user fees or charges for services. Revenues of the City's Water and Sewer Fund totaled \$.9 million in 2004 and expenses were \$1.0 million. The City experienced a decrease in net assets of approximately \$.1 million. Unfortunately, the cost of water and sewer to the City increased approximately 13 percent and insurance costs increased substantially from the year ended June 30, 2003 as well.

During fiscal year 2004, the City Council approved an approximate 19 percent increase in the City's water and sewer rates. The rate increase and revised water and sewer rate structure serves to better isolate the effects of cost increases to the City and to become more compliant with State regulations.

### **The City's Funds**

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City's major funds for 2004 include the General Fund, Housing Development Grant Fund, and the Major Streets Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire, which incurred expenditures of approximately \$.8 million in 2004. The general operating millage levied by the City supports these two services. The Major Streets Fund is used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activity in this fund. Lastly, the Housing Development Grant Fund houses a grant given to the City from HUD and loaned out to a developer.

### **General Fund Budgetary Highlights**

Over the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The most significant of these events during fiscal year 2004 was an increase in state sources due to an unanticipated and nonrecurring state grant to fund the cost of land and lighting improvements within the City. In addition, this revenue increase was offset by the costs of these land and lighting improvements. To combat other dismal revenue increases and continued health care and pension funding increases, the City exercised increased diligence in the area of expenditure control. In addition, City management began assessing other governmental funds an administrative charge for services provided by the General Fund. As a result, actual revenues and expenditures approximated final budgeted amounts within most categories.

# **City of Mt. Morris, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **Capital Assets and Long-term Debt Administration**

At the end of fiscal year 2004, the City had approximately \$4 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. In addition, for the first time, the City will report infrastructure assets on a prospective basis, which includes roads, bridges, sidewalks, and similar items.

In addition, the City had approximately \$2 million in debt obligations related to general obligation bonds, installment purchase obligations, and revenue bonds. During fiscal year 2004, additional debt was issued to support the Genesee County Water Supply System for approximately \$28,000.

### **Economic Factors and Next Year's Budgets and Rates**

The City has prepared its budget to incorporate the continued decrease in state-shared revenue for 2005 and the limited growth in existing property tax values due to restrictions of Proposal A and Headlee limitations. Both these significant revenue sources will continue to have a negative impact on 2005 General Fund revenue.

For the Water and Sewer Fund, the City has incorporated minimal increases to the City's water and sewer rates charged to the citizens in order to reflect the City's increases in rates for water units purchased and sewer treatment incurred by the City. These rate increases were anticipated and planned. The City is in the process of conducting a rate study to address future costs.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's office.

# City of Mt. Morris, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 722,476	\$ 228,313	\$ 950,789	\$ 19,036
Receivables:				
Customer	15,200	130,968	146,168	-
Housing Development receivable (Note 4)	1,000,000	-	1,000,000	-
Due from other governmental units	171,499	-	171,499	-
Other	17,559	-	17,559	-
Inventories, prepaids, and other assets	-	31,997	31,997	-
Land held for resale	355,663	-	355,663	-
Restricted assets (Note 8)	-	88,157	88,157	-
Capital assets - Net (Note 5):				
Nondepreciable capital assets	372,226	18,744	390,970	40,000
Depreciable capital assets - Net	527,899	2,900,521	3,428,420	68,000
Total assets	3,182,522	3,398,700	6,581,222	127,036
<b>Liabilities</b>				
Accounts payable	36,082	44,866	80,948	8,965
Accrued and other liabilities	108,256	26,193	134,449	-
Deferred revenue (Note 4)	1,000,000	-	1,000,000	-
Noncurrent liabilities (Note 7):				
Due within one year	103,280	79,600	182,880	13,000
Due in more than one year	653,596	1,224,244	1,877,840	23,500
Total liabilities	1,901,214	1,374,903	3,276,117	45,465
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	228,864	1,615,421	1,844,285	71,500
Restricted:				
Streets and highways	345,141	-	345,141	-
Cemetery care	59,365	-	59,365	-
Other	18,848	-	18,848	-
Water and sewer debt service	-	88,157	88,157	-
Unrestricted	629,090	320,219	949,309	10,071
Total net assets	<u>\$ 1,281,308</u>	<u>\$ 2,023,797</u>	<u>\$ 3,305,105</u>	<u>\$ 81,571</u>

# City of Mt. Morris, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 451,068	\$ 44,560	\$ 40,849	\$ -
Public safety	798,166	145,974	5,036	-
Public works	680,796	334,618	210,202	-
Recreation and culture	22,690	-	-	-
Interest on long-term debt	36,435	-	-	-
Total governmental activities	1,989,155	525,152	256,087	-
Business-type activities - Water and sewer	1,036,862	940,670	-	-
Total primary government	<u>\$ 3,026,017</u>	<u>\$ 1,465,822</u>	<u>\$ 256,087</u>	<u>\$ -</u>
Component unit - Downtown Development Authority	<u>\$ 69,201</u>	<u>\$ -</u>	<u>\$ 20,077</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Special item - Gain on sale of capital assets				
Total general revenues and special item				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year - As adjusted (Note 14)				
<b>Net Assets</b> - End of year				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (365,659)	\$ -	\$ (365,659)	\$ -
(647,156)	-	(647,156)	-
(135,976)	-	(135,976)	-
(22,690)	-	(22,690)	-
(36,435)	-	(36,435)	-
(1,207,916)	-	(1,207,916)	-
-	(96,192)	(96,192)	-
(1,207,916)	(96,192)	(1,304,108)	-
-	-	-	49,124
716,949	-	716,949	44,244
536,189	-	536,189	-
2,916	1,252	4,168	130
72,757	2,916	75,673	-
29,837	-	29,837	-
1,358,648	4,168	1,362,816	44,374
150,732	(92,024)	58,708	(4,750)
1,130,576	2,115,821	3,246,397	86,321
<b>\$ 1,281,308</b>	<b>\$ 2,023,797</b>	<b>\$ 3,305,105</b>	<b>\$ 81,571</b>



# City of Mt. Morris, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	Major Special Revenue Funds			Other	Total
	General Fund	Housing Development Grant Fund	Major Streets Fund	Nonmajor Governmental Funds	Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 243,608	\$ -	\$ 241,845	\$ 135,437	\$ 620,890
Receivables:					
Customers	15,200	-	-	-	15,200
Due from other governmental units	55,732	-	26,724	8,974	91,430
Other	17,559	-	-	-	17,559
Housing Development receivable (Note 4)	-	1,000,000	-	-	1,000,000
Land held for resale	355,663	-	-	-	355,663
<b>Total assets</b>	<b>\$ 687,762</b>	<b>\$ 1,000,000</b>	<b>\$ 268,569</b>	<b>\$ 144,411</b>	<b>\$ 2,100,742</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 31,961	\$ -	\$ 2,357	\$ 1,643	\$ 35,961
Accrued and other liabilities	99,658	-	218	218	100,094
Due to other funds (Note 6)	18	-	-	-	18
Deferred revenue (Note 4)	-	1,000,000	-	-	1,000,000
<b>Total liabilities</b>	<b>131,637</b>	<b>1,000,000</b>	<b>2,575</b>	<b>1,861</b>	<b>1,136,073</b>
<b>Fund Balances</b>					
Reserved in:					
General Fund (Note 9)	374,511	-	-	-	374,511
Cemetery Care Fund	-	-	-	59,365	59,365
Unreserved - Reported in:					
General Fund	181,614	-	-	-	181,614
Special Revenue Funds	-	-	265,994	81,665	347,659
Debt Service Funds	-	-	-	1,520	1,520
<b>Total fund balances</b>	<b>556,125</b>	<b>-</b>	<b>265,994</b>	<b>142,550</b>	<b>964,669</b>
<b>Total liabilities and fund balances</b>	<b>\$ 687,762</b>	<b>\$ 1,000,000</b>	<b>\$ 268,569</b>	<b>\$ 144,411</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	648,236
State-shared revenue receivable to be collected next fiscal year, relating to the State's sales tax year	80,069
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(6,705)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(576,930)
Internal Service Funds are included as part of governmental activities	171,969
<b>Net assets of governmental activities</b>	<b>\$ 1,281,308</b>

# City of Mt. Morris, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Housing Development Grant Fund	Major Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 716,948	\$ -	\$ -	\$ -	\$ 716,948
Licenses and permits	1,948	-	-	20,337	22,285
Federal sources	40,537	-	-	-	40,537
State sources	556,135	-	157,398	52,804	766,337
Charges for services	250,669	-	-	-	250,669
Fines and forfeitures	51,047	-	-	-	51,047
Interest	902	-	1,291	776	2,969
Rents, royalties, and other	130,561	-	9,410	2,070	142,041
Total revenue	1,748,747	-	168,099	75,987	1,992,833
<b>Expenditures</b>					
General government	635,243	-	-	-	635,243
Public safety	810,313	-	-	-	810,313
Public works	263,559	-	170,826	79,732	514,117
Recreation, cultural, and other	20,761	-	-	-	20,761
Capital outlay	-	-	-	3,712	3,712
Debt service	-	-	-	42,428	42,428
Total expenditures	1,729,876	-	170,826	125,872	2,026,574
<b>Excess of Revenue Over (Under) Expenditures</b>	18,871	-	(2,727)	(49,885)	(33,741)
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 6)	3,531	-	-	45,871	49,402
Transfers out (Note 6)	(40,000)	-	-	(9,402)	(49,402)
Total other financing sources (uses)	(36,469)	-	-	36,469	-
<b>Change in Fund Balance</b>	(17,598)	-	(2,727)	(13,416)	(33,741)
<b>Fund Balances - July 1, 2003</b>	573,723	-	268,721	155,966	998,410
<b>Fund Balances - June 30, 2004</b>	<u>\$ 556,125</u>	<u>\$ -</u>	<u>\$ 265,994</u>	<u>\$ 142,550</u>	<u>\$ 964,669</u>

# City of Mt. Morris, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (33,741)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	179,031
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(16,210)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	25,165
Interest expense is recorded when incurred in the statement of activities	169
Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	5,099
Internal Service Funds are also included as governmental activities	(8,781)

**Change in Net Assets of Governmental Activities** \$ 150,732

# City of Mt. Morris, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 228,313	\$ 101,586
Customer receivables	130,968	-
Due from other funds (Note 6)	-	18
Inventory	31,997	-
Total current assets	391,278	101,604
Noncurrent assets:		
Restricted assets (Note 8)	88,157	-
Nondepreciable capital assets (Note 5)	18,744	-
Depreciable capital assets - Net (Note 5)	2,900,521	251,890
Total noncurrent assets	3,007,422	251,890
Total assets	3,398,700	353,494
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	44,866	121
Accrued and other liabilities	26,193	1,458
Current portion of long-term debt (Note 7)	79,600	27,581
Total current liabilities	150,659	29,160
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	1,224,244	152,365
Total liabilities	1,374,903	181,525
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	1,615,421	71,944
Restricted for long-term debt	88,157	-
Unrestricted	320,219	100,025
Total net assets	<u>\$ 2,023,797</u>	<u>\$ 171,969</u>

# City of Mt. Morris, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer	Internal Service Funds
<b>Operating Revenue</b>		
Charges for services	\$ 901,844	\$ 209,695
Fines and forfeitures	35,366	-
Other income	2,915	3,526
	<hr/>	<hr/>
Total operating revenue	940,125	213,221
<b>Operating Expenses</b>		
Cost of water/sewer	448,571	-
Wages and salaries	183,131	9,778
Fringe benefits	69,796	3,267
Supplies	77	24,647
Operating	27,730	34,176
Professional services	54,353	-
Insurance	2,896	34,235
Rental	61,615	-
Retiree benefit payments	-	46,559
Depreciation	125,738	60,938
	<hr/>	<hr/>
Total operating expenses	973,907	213,600
<b>Operating Loss</b>	(33,782)	(379)
<b>Nonoperating Revenue (Expense)</b>		
Interest income	1,252	354
Interest expense	(62,954)	(8,756)
Tap-in fees	3,460	-
	<hr/>	<hr/>
Total nonoperating expense	(58,242)	(8,402)
<b>Change in Net Assets</b>	(92,024)	(8,781)
<b>Net Assets - Beginning of year - As adjusted (Note 14)</b>	<hr/> 2,115,821	<hr/> 180,750
<b>Net Assets - End of year</b>	<hr/> <b>\$ 2,023,797</b>	<hr/> <b>\$ 171,969</b>

# City of Mt. Morris, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 924,952	\$ 213,221
Payments to suppliers	(594,504)	(141,481)
Payments to employees	(246,589)	(13,045)
Other receipts (payments)	9,980	(10,089)
Net cash provided by operating activities	93,839	48,606
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from the issuance of long-term debt	73,000	-
Purchase of capital assets	(157,038)	(5,405)
Principal and interest paid on capital debt	(124,954)	(35,649)
Capital contributions - Tap-in fees	3,460	-
Net cash used in capital and related financing activities	(205,532)	(41,054)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	1,252	354
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(110,441)	7,906
<b>Cash and Cash Equivalents - Beginning of year</b>	426,911	93,680
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 316,470</b></u>	<u><b>\$ 101,586</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 228,313	\$ 101,586
Restricted cash and investments	88,157	-
Total cash and cash equivalents	<u><b>\$ 316,470</b></u>	<u><b>\$ 101,586</b></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (33,782)	\$ (379)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	125,738	60,938
Changes in assets and liabilities:		
Receivables	(15,173)	80
Other assets	10,806	-
Accounts payable	738	(1,864)
Accrued and other liabilities	5,512	(10,169)
Net cash provided by operating activities	<u><b>\$ 93,839</b></u>	<u><b>\$ 48,606</b></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, there were no noncash activities.

# City of Mt. Morris, Michigan

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## Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	Trust and Agency Fund
<b>Assets</b> - Cash and cash equivalents	<u><u>\$ 512</u></u>
<b>Liabilities</b> - Accrued and other liabilities	<u><u>\$ 512</u></u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Mt. Morris, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of eight to 11 individuals, is selected by the mayor with City Council approval. In addition, the DDA's budget is subject to approval by the City.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state gas and weight tax revenue and interest associated with the current fiscal period. Conversely, federal grant reimbursements and state-shared revenues will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability when applicable.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from the general property taxes, state-shared revenue, and other sources.

**Housing Development Grant Fund** - The Housing Development Grant Fund is a grant given to the City from HUD to loan to a developer. The developer is to pay back the City by 2016 with no interest.

**Major Streets Fund** - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided through state-shared gas and weight taxes.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of these services.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other governments, primarily on a cost-reimbursement basis.

**Agency Funds** - Agency Funds are used to account for assets held by the City in a trustee capacity. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. The related taxes are billed on July 1 and become a lien on December 1 of the following year. Taxes are considered delinquent on September 16 of the same year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$38,510,418 (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 18.4873 mills for operating purposes, resulting in \$690,737 for operating purposes. These amounts are recognized in the respective General Fund financial statements as tax revenue.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest payments. These amounts have been classified as restricted assets.

**Land Held for Resale** - Land held for resale in the General Fund is valued at the lower of cost or market value.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets on a prospective basis (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowable under GASB Statement No. 34, the City has elected to not retroactively record infrastructure assets prior to July 1, 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water and sewer systems	20 to 50 years
Buildings and building improvements	50 years
Vehicles	5 to 8 years
Machinery, equipment, and other	5 to 10 years
Land improvements	50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003	\$ (12,317)
Current year building permit revenue	20,337
Direct costs of construction code expenses	<u>19,238</u>
Cumulative shortfall at June 30, 2004	<u>\$ (11,218)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan; and money market funds, certificates of deposit, savings accounts, deposit accounts, or depository receipts of financial institutions that comply with Public Act 20. The investment policy adopted by the Council is in accordance with statutory authority.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investments in all of the items described above.

# City of Mt. Morris, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Unit
Cash and cash equivalents	\$ 722,476	\$ 228,313	\$ 950,789	\$ 512	\$ 19,036
Restricted assets	-	88,157	88,157	-	-
Total	<u>\$ 722,476</u>	<u>\$ 316,470</u>	<u>\$ 1,038,946</u>	<u>\$ 512</u>	<u>\$ 19,036</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Fiduciary Funds	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,038,446	\$ 512	\$ 19,036
Petty cash or cash on hand	500	-	-
Total	<u>\$ 1,038,946</u>	<u>\$ 512</u>	<u>\$ 19,036</u>

### Deposits

The bank balance of the City's deposits is \$943,350, of which \$200,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The cash and cash equivalents of the City's component unit consists of deposits of \$19,036, all of which is covered by federal depository insurance.

### Note 4 - Loan Receivable and Deferred Revenue - Housing Development Grant Fund

In 1985, the City of Mt. Morris received a grant to make loans for the development of Morris Square. The grant was received from Michigan State Housing Development Authority. It was loaned to Mt. Morris Square Limited Dividend Housing Association to be used as a development cost write-down. The \$1,000,000 loan is currently recorded as a loan receivable and deferred revenue. The loan agreement requires that the developer repay the loan at the end of 30 years from the original loan date.

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Other governmental capital assets:				
Capital assets not being depreciated -				
Land	\$ 368,301	\$ 3,925	\$ -	\$ 372,226
Capital assets being depreciated:				
Land improvements	2,976	175,509	-	178,485
Buildings	164,640	-	-	164,640
Machinery and equipment	66,303	12,697	-	79,000
Subtotal	233,919	188,206	-	422,125
Accumulated depreciation:				
Land improvements	2,857	3,218		6,075
Buildings	105,120	2,964	-	108,084
Machinery and equipment	25,036	6,920	-	31,956
Subtotal	133,013	13,102	-	146,115
Net capital assets being depreciated	100,906	175,104	-	276,010
Net other governmental capital assets	469,207	179,029	-	648,236



### Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities (Continued)</b>				
Internal Service Funds assets:				
Capital assets being depreciated:				
Vehicles	\$ 837,625	\$ -	\$ -	\$ 837,625
Machinery and equipment	128,127	5,405	-	133,532
Subtotal	965,752	5,405	-	971,157
Accumulated depreciation:				
Vehicles	563,650	47,293	-	610,943
Machinery and equipment	94,680	13,645	-	108,325
Subtotal	658,330	60,938	-	719,268
Net Internal Service Funds capital assets	307,422	(55,533)	-	251,889
Governmental capital assets not being depreciated	368,301	3,925	-	372,226
Net governmental capital assets being depreciated	408,328	119,571	-	527,899
Net governmental activity capital assets	<u>\$ 776,629</u>	<u>\$ 123,496</u>	<u>\$ -</u>	<u>\$ 900,125</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Land	\$ 18,744	\$ -	\$ -	\$ 18,744
Capital assets being depreciated:				
Buildings	10,300	-	-	10,300
Water and sewer system	4,330,516	93,060	-	4,423,576
Machinery, equipment, and other	43,413	63,679	-	107,092
Subtotal	4,384,229	156,739	-	4,540,968
Accumulated depreciation:				
Buildings	7,828	206	-	8,034
Water and sewer system	1,470,484	116,128	-	1,586,612
Machinery and equipment	36,397	9,404	-	45,801
Subtotal	1,514,709	125,738	-	1,640,447
Net capital assets being depreciated	2,869,520	31,001	-	2,900,521
Net capital assets	<u>\$ 2,888,264</u>	<u>\$ 31,001</u>	<u>\$ -</u>	<u>\$ 2,919,265</u>

### Note 5 - Capital Assets (Continued)

Capital asset activity for the City's component unit for the year was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Component Unit</b>				
Capital assets not being depreciated - Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Capital assets being depreciated - Land improvements	85,000	-	-	85,000
Accumulated depreciation - Land improvements	15,300	1,700	-	17,000
Net capital assets being depreciated	69,700	(1,700)	-	68,000
Net capital assets	\$ 109,700	\$ (1,700)	\$ -	\$ 108,000

Depreciation expense was charged to programs of the primary government as follows:

**Governmental activities:**

General government	\$ 6,852
Public safety	3,714
Public works	61,544
Recreation and culture	1,930

Total governmental activities \$ 74,040

Business-type activities - Water and sewer \$ 125,738

**Construction Commitments** - The City has one active construction project at year end. The project that was still active is the Streetscape project. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Streetscape	\$ 135,442	\$ 17,265

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service Funds	General Fund	<u>\$ 18</u>

This balance results from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Nonmajor governmental funds - 1999 Budget	
	Bonds Fund	\$ 40,000
Nonmajor governmental funds	General Fund	3,247
	Nonmajor governmental funds - Local Street Fund	<u>5,871</u>
	Total nonmajor governmental funds	9,118
Cemetery Care Fund	General Fund	<u>284</u>
	Total	<u>\$ 49,402</u>

The transfer from the General Fund to the Debt Service Fund represents the use of unrestricted resources to finance the debt of the City.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Other governmental obligations					
General obligation bonds					
1999 budget bonds					
Amount of issue - \$550,000	4.50% -				
Maturing through 2020	5.75%	\$ 505,000	\$ (15,000)	\$ 490,000	\$ 20,000
Installment purchase obligations:					
Fire van and fire hall improvements					
Amount of issue - \$80,000	5.00% -				
Maturing through 2005	5.10%	11,480	(10,165)	1,315	1,315
Employee compensated absences		59,483	(5,099)	54,384	54,384
Estimated personal property tax multiplier liability (Note 13)		31,231	-	31,231	-
Subtotal - Other governmental obligations		607,194	(30,264)	576,930	75,699
Internal Service Funds					
Installment purchase obligations:					
Sewer vacor truck					
Amount of issue - \$170,000	4.05%	101,839	(16,893)	84,946	17,581
Maturing through 2009					
Snow plow truck					
Amount of issue - \$125,000	4.90%	105,000	(10,000)	95,000	10,000
Maturing through 2011					
Subtotal - Internal Service Funds		206,839	(26,893)	179,946	27,581
Total governmental activities		814,033	(57,157)	756,876	103,280
<b>Business-type Activities</b>					
Revenue bonds:					
Water System Extension					
Amount of issue - \$580,000	6.25%	505,000	(15,000)	490,000	20,000
Maturing through 2019					
Water System Bonds					
Amount of issue - \$180,000	4.90% -				
Maturing through 2020	6.00%	165,000	(5,000)	160,000	5,000
Junior Lien Revenue Bonds					
Amount of issue - \$417,844	2.50%	372,844	(20,000)	352,844	20,000
Maturing through 2020					
County contractual obligation					
Genesee County Water Supply System					
Amount of issue - \$35,000	4.00%	-	28,000	28,000	7,000
Maturing through 2008					
Installment purchase obligation					
Rosewood Water Line					
Amount of issue - \$250,000	4.875%	250,000	(15,000)	235,000	20,000
Maturing through 2013					
Mt. Morris Road Water Line					
Amount of issue - \$38,000	3.50%	-	38,000	38,000	7,600
Maturing through 2009					
Total business-type activities		1,292,844	11,000	1,303,844	79,600
Total business-type and governmental activities		\$ 2,106,877	\$ (46,157)	\$ 2,060,720	\$ 182,880

# City of Mt. Morris, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-term Debt (Continued)

Component Unit	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Downtown Development Authority					
Parking Lot Bonds					
Amount of issue - \$85,000					
Maturing through 2007	6.29%	\$ 32,000	\$ (8,000)	\$ 24,000	\$ 8,000
Parking lot land contract					
Amount of issue - \$40,000					
Maturing through 2007		17,500	(5,000)	12,500	5,000
Total component unit		<u>\$ 49,500</u>	<u>\$ (13,000)</u>	<u>\$ 36,500</u>	<u>\$ 13,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 48,896	\$ 33,946	\$ 82,842	\$ 79,600	\$ 60,748	\$ 140,348	\$ 13,000	\$ 1,510	\$ 14,510
2006	48,304	31,770	80,074	79,600	57,369	136,969	13,000	1,006	14,006
2007	54,057	29,435	83,492	84,600	53,833	138,433	10,500	502	11,002
2008	54,841	26,926	81,767	89,600	50,021	139,621	-	-	-
2009	50,163	24,284	74,447	87,600	46,051	133,651	-	-	-
2010-2014	170,000	91,718	261,718	430,000	168,283	598,283	-	-	-
2015-2019	200,000	42,790	242,790	415,000	70,616	485,616	-	-	-
2020-2024	45,000	1,294	46,294	37,844	736	38,580	-	-	-
Total	<u>\$ 671,261</u>	<u>\$ 282,163</u>	<u>\$ 953,424</u>	<u>\$ 1,303,844</u>	<u>\$ 507,657</u>	<u>\$ 1,811,501</u>	<u>\$ 36,500</u>	<u>\$ 3,018</u>	<u>\$ 39,518</u>

### Note 8 - Restricted Assets

Restricted assets of the Enterprise Fund include \$88,157 restricted for debt payments on the water supply and sewage disposal system revenue bonds at June 30, 2004. Restricted assets result from an allocation of the original bond proceeds and, accordingly, it is not necessary to reserve retained earnings for the amount of restricted assets.

### Note 9 - Reserved Fund Balance

Fund balance has been reserved within the governmental funds for the following:

	Drug Forfeiture	PEG Grants	Land Held for Resale	Debt Retirement	Total Reserved Fund Balance
General Fund	<u>\$ 2,190</u>	<u>\$ 16,658</u>	<u>\$ 355,663</u>	<u>\$ -</u>	<u>\$ 374,511</u>

### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees and participates in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 11 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in the Genesee County Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Genesee County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by contacting the System at 1-800-949-2627.

**Funding Policy** - The City is required to contribute at an actuarially determined rate; the current rate is 14.96 percent of annual covered payroll. City employees are required to contribute 5 percent of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of Genesee County Employees' Retirement System. The contribution requirements of plan members are established and may be amended by the City, depending on the Genesee County Employees' Retirement System contribution program adopted by the City.

### Note 11 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$70,865 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of the actuarial valuations at December 31, 2002. The actuarial valuations use the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 5.00 percent to 9.03 percent per year depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 5.00 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Unfunded actuarial liability is amortized over a period of 20 years.

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 70,864	\$ 21,819	\$ 20,887
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of asset	\$ 3,243,105	\$ 3,314,393	\$ 3,408,204
Actuarial accrued liability (AAL) (entry age)	\$ 3,744,874	\$ 3,481,466	\$ 3,099,067
Overfunded (unfunded) AAL (UAAL)	\$ (501,769)	\$ (167,073)	\$ 309,137
Funded ratio	87%	95%	110%
Covered payroll	\$ 838,736	\$ 821,533	\$ 764,195
UAAL as a percentage of covered payroll	60%	20%	- %

### **Note 12 - Other Postemployment Benefits**

The City provides life and health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, eight retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this totaled \$46,559. These benefits are paid annually from the Internal Service Fund.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

### **Note 13 - Personal Property Tax Multipliers**

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of \$31,231 in the governmental funds. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2004.



### Note 14 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the statement but not the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure on a prospective basis (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include infrastructure assets on a prospective basis (roads, bridges, etc.) not previously accounted for by the City, as well as assets totaling approximately \$469,000 that would previously have been reported in the cost of the City's capital assets at that date.
- Capital assets in the Water and Sewer Fund and the Internal Service Equipment Fund have been restated due to the City's recent inventory of their capital assets to properly implement GASB Statement No. 34. As a result of the inventory, net assets in the Water and Sewer Fund have been restated from \$2,126,169 to \$2,115,821 as of July 1, 2003. Also, net assets in the Internal Service Equipment Fund have been restated from \$176,503 to \$180,750 as of July 1, 2003.
- The governmental activities column includes bonds and other long-term obligations totaling \$516,480 previously reported in the General Long-term Debt Account Group.

## **Required Supplemental Information**

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# City of Mt. Morris, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Resources (Inflows)</b>				
Property taxes	\$ 722,281	\$ 716,071	\$ 716,948	\$ 877
Licenses and permits	10,550	1,947	1,948	1
Federal sources	40,000	40,537	40,537	-
State sources	443,500	576,200	556,135	(20,065)
Charges for services	241,950	239,102	250,669	11,567
Fines and forfeitures	75,000	50,962	51,047	85
Interest and rent	105,950	149,215	131,463	(17,752)
Operating transfers in	30,200	33,529	33,531	2
Total resources (inflows)	1,669,431	1,807,563	1,782,278	(25,285)
<b>Expenditures</b>				
Legislative	18,573	14,373	14,545	(172)
General government:				
Elections	4,325	2,965	2,964	1
Assessor	10,950	10,521	10,521	-
Attorney	65,000	65,000	61,567	3,433
Administration	128,347	132,157	125,741	6,416
City Treasurer	71,829	69,000	69,582	(582)
Accountant	20,000	20,000	19,820	180
City hall and grounds	110,136	113,908	110,911	2,997
Other city property	68,250	218,556	193,693	24,863
Cemetery	20,900	27,000	27,899	(899)
Total general government	499,737	659,107	622,698	36,409
Public safety:				
Police	676,247	689,247	705,599	(16,352)
Fire	91,570	91,570	85,230	6,340
Code enforcement	13,000	12,042	10,205	1,837
Planning commission	11,000	10,791	9,279	1,512
Total public safety	791,817	803,650	810,313	(6,663)

# City of Mt. Morris, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures (Continued)</b>				
Public works:				
Public service	\$ 98,491	\$ 110,158	\$ 119,807	\$ (9,649)
Sidewalks	15,200	5,000	4,670	330
Trash collection	136,775	136,775	131,165	5,610
Weed control	<u>3,900</u>	<u>5,063</u>	<u>7,917</u>	<u>(2,854)</u>
Total public works	254,366	256,996	263,559	(6,563)
Recreation and cultural - Library	21,400	21,400	20,761	639
Operating transfers out	<u>68,000</u>	<u>68,000</u>	<u>68,000</u>	<u>-</u>
Total expenditures	<u>1,653,893</u>	<u>1,823,526</u>	<u>1,799,876</u>	<u>23,650</u>
<b>Net Change in Fund Balance</b>	15,538	(15,963)	(17,598)	(1,635)
<b>Fund Balance - Beginning of year</b>	<u>573,723</u>	<u>573,723</u>	<u>573,723</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 589,261</u></u>	<u><u>\$ 557,760</u></u>	<u><u>\$ 556,125</u></u>	<u><u>\$ (1,635)</u></u>

# City of Mt. Morris, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Year Ended June 30, 2004

	Major Streets Fund			Variance with Amended Budget Favorable (Unfavorable)
	Original Budget	Amended Budget	Actual	
<b>Revenue</b>				
State sources	\$ 138,870	\$ 155,895	\$ 157,398	\$ 1,503
Interest	1,000	1,170	1,291	121
Rents, royalties, and other	-	-	9,410	9,410
Total revenue	139,870	157,065	168,099	11,034
<b>Expenditures</b> - Public works	260,828	245,103	170,826	74,277
<b>Net Change in Fund Balance</b>	(120,958)	(88,038)	(2,727)	85,311
<b>Fund Balance</b> - Beginning of year	268,721	268,721	268,721	-
<b>Fund Balance</b> - End of year	<u>\$ 147,763</u>	<u>\$ 180,683</u>	<u>\$ 265,994</u>	<u>\$ 85,311</u>

# City of Mt. Morris, Michigan

## Notes to Required Supplemental Information June 30, 2004

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenue, expenditures, and changes in fund balances):

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 1,748,747	\$ 1,729,876
Operating transfers budgeted as revenue and expenditures	3,531	40,000
Reimbursements shown net of expenditures budgeted as operating transfers	30,000	30,000
Amounts per budget statement	<u>\$ 1,782,278</u>	<u>\$ 1,799,876</u>

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as an "other financing source." All annual appropriations lapse at fiscal year end. During the year, the budget was amended in a legally permissible manner.

# City of Mt. Morris, Michigan

## Notes to Required Supplemental Information June 30, 2004

### Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Monday in May, the treasurer and the City manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Council. The budget must be adopted through a passage of a budget resolution no later than the second Monday in June. During the year, the budget was not passed until after the required date.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the Council receives requests to amend the activity budget. All amendments over \$5,000 must be approved by a vote of the City Council. Amendments to the budget under \$5,000 and changes in line items within an activity may be approved by the City manager.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Public safety - Police	\$ 689,247	\$ 705,599

The expenditure for public safety - police exceeded budgeted amounts primarily due to larger increases in fringe benefit costs than anticipated.

## **Other Supplemental Information**

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# City of Mt. Morris, Michigan

	Special Revenue Funds			
	Local Streets	Surfaces and Safety	Building Department	Police Equipment
<b>Assets</b>				
Cash and cash equivalents	\$ 70,391	\$ -	\$ 4,161	\$ -
Due from other governmental units	8,974	-	-	-
Total assets	<u><u>\$ 79,365</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,161</u></u>	<u><u>\$ -</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 1,643	\$ -
Accrued and other liabilities	218	-	-	-
Total liabilities	218	-	1,643	-
<b>Fund Balances - Unreserved</b>	<u>79,147</u>	<u>-</u>	<u>2,518</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ 79,365</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,161</u></u>	<u><u>\$ -</u></u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

Debt Service Funds			Permanent Fund	
1999 Budget Bonds	1988 Michigan Transportation	Fire Truck	Cemetery Care	Total Nonmajor Governmental Funds
\$ 1,520	\$ -	\$ -	\$ 59,365	\$ 135,437
-	-	-	-	8,974
<u><u>\$ 1,520</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,365</u></u>	<u><u>\$ 144,411</u></u>
\$ -	\$ -	\$ -	\$ -	\$ 1,643
-	-	-	-	218
-	-	-	-	1,861
1,520	-	-	59,365	142,550
<u><u>\$ 1,520</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,365</u></u>	<u><u>\$ 144,411</u></u>

# City of Mt. Morris, Michigan

	Special Revenue Funds			
	Local Streets	Surfaces and Safety	Building Department	Police Equipment
<b>Revenue</b>				
Licenses and permits	\$ -	\$ -	\$ 20,337	\$ -
State sources	52,804	-	-	-
Interest	407	3	-	-
Other	1,091	-	-	-
Total revenue	54,302	3	20,337	-
<b>Expenditures</b>				
Public works	60,494	-	19,238	-
Capital outlay	-	-	-	1,300
Debt service	-	-	-	-
Total expenditures	60,494	-	19,238	1,300
<b>Excess of Revenue Over (Under) Expenditures</b>	(6,192)	3	1,099	(1,300)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	5,871	-	-	-
Operating transfers out	-	(5,871)	-	-
Total other financing sources (uses)	5,871	(5,871)	-	-
<b>Net Change in Fund Balances</b>	(321)	(5,868)	1,099	(1,300)
<b>Fund Balances - Beginning of year</b>	79,468	5,868	1,419	1,300
<b>Fund Balances - End of year</b>	<u>\$ 79,147</u>	<u>\$ -</u>	<u>\$ 2,518</u>	<u>\$ -</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Debt Service Funds			Permanent Fund	
1999 Budget Bonds	1988 Michigan Transportation	Fire Truck	Cemetery Care	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 20,337
-	-	-	-	52,804
51	3	-	312	776
-	-	-	979	2,070
51	3	-	1,291	75,987
	-	-	-	79,732
-	831	1,581	-	3,712
42,428	-	-	-	42,428
42,428	831	1,581	-	125,872
(42,377)	(828)	(1,581)	1,291	(49,885)
40,000	-	-	-	45,871
-	(3,247)	-	(284)	(9,402)
40,000	(3,247)	-	(284)	36,469
(2,377)	(4,075)	(1,581)	1,007	(13,416)
3,897	4,075	1,581	58,358	155,966
<b>\$ 1,520</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 59,365</b>	<b>\$ 142,550</b>

# City of Mt. Morris, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Equipment	Retiree Benefits	Totals
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 76,682	\$ 24,904	\$ 101,586
Due from other funds	18	-	18
Total current assets	76,700	24,904	101,604
Noncurrent assets - Depreciable capital assets	251,890	-	251,890
Total assets	328,590	24,904	353,494
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	110	11	121
Accrued and other liabilities	1,458	-	1,458
Current portion of long-term debt	27,581	-	27,581
Total current liabilities	29,149	11	29,160
Noncurrent liabilities - Long-term debt - Net of current portion	152,365	-	152,365
Total liabilities	181,514	11	181,525
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	71,944	-	71,944
Unrestricted	75,132	24,893	100,025
Total net assets	<u>\$ 147,076</u>	<u>\$ 24,893</u>	<u>\$ 171,969</u>

# City of Mt. Morris, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2004

	Equipment	Retiree Benefits	Totals
<b>Operating Revenue</b>			
Charges for services	\$ 161,795	\$ 47,900	\$ 209,695
Other income	<u>3,526</u>	<u>-</u>	<u>3,526</u>
Total operating revenue	165,321	47,900	213,221
<b>Operating Expenses</b>			
Wages and salaries	9,778	-	9,778
Fringe benefits	3,267	-	3,267
Supplies	24,647	-	24,647
Operating	34,176	-	34,176
Insurance	34,235	-	34,235
Retiree benefits	-	46,559	46,559
Depreciation	<u>60,938</u>	<u>-</u>	<u>60,938</u>
Total operating expenses	<u>167,041</u>	<u>46,559</u>	<u>213,600</u>
<b>Operating Income (Loss)</b>	(1,720)	1,341	(379)
<b>Nonoperating Revenue (Expense)</b>			
Interest income	256	98	354
Interest expense	<u>(8,756)</u>	<u>-</u>	<u>(8,756)</u>
Total nonoperating revenue (expense)	<u>(8,500)</u>	<u>98</u>	<u>(8,402)</u>
<b>Change in Net Assets</b>	(10,220)	1,439	(8,781)
<b>Net Assets</b> - Beginning of year - As adjusted	<u>157,296</u>	<u>23,454</u>	<u>180,750</u>
<b>Net Assets</b> - End of year	<u><u>\$ 147,076</u></u>	<u><u>\$ 24,893</u></u>	<u><u>\$ 171,969</u></u>

# City of Mt. Morris, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Equipment	Retiree Benefits	Totals
<b>Cash Flows from Operating Activities</b>			
Receipts from other funds	\$ 165,321	\$ 47,900	\$ 213,221
Payments to suppliers	(94,933)	(46,548)	(141,481)
Payments to employees	(13,045)	-	(13,045)
Other payments	(10,089)	-	(10,089)
Net cash provided by operating activities	47,254	1,352	48,606
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal and interest paid on long-term debt	(35,649)	-	(35,649)
Purchase of capital assets	(5,405)	-	(5,405)
Net cash used in financing activities	(41,054)	-	(41,054)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	256	98	354
<b>Net Increase in Cash and Cash Equivalents</b>	6,456	1,450	7,906
<b>Cash and Cash Equivalents - July 1, 2003</b>	70,226	23,454	93,680
<b>Cash and Cash Equivalents - June 30, 2004</b>	<u>\$ 76,682</u>	<u>\$ 24,904</u>	<u>\$ 101,586</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ (1,720)	\$ 1,341	\$ (379)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	60,938	-	60,938
Changes in assets and liabilities:			
Receivables	80	-	80
Accounts payable	(1,875)	11	(1,864)
Accrued and other liabilities	(10,169)	-	(10,169)
Net cash provided by operating activities	<u>\$ 47,254</u>	<u>\$ 1,352</u>	<u>\$ 48,606</u>

October 8, 2004

Honorable Mayor and Members  
of the City Council  
City of Mount Morris  
11649 North Saginaw Street  
Mount Morris, MI 48458-2092

Dear Mayor and Council Members:

We recently completed our audit of the financial statements of the City of Mt. Morris, Michigan for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration.

### GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! The GASB believes that this new model will provide a more complete picture of the financial position of governmental units. You will notice a different look to the financial statements which we audited this year. We have worked with the City to successfully implement this change. We would like to commend the City for the hard work put forth with this endeavor. Although, there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the Commission's overall financial position and results of operations.
- Government-wide Financial Statements: The statements now adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's users paying for today's benefits?). These statements show capital assets, as well as long term debt, as part of the City's financial picture.
- Budget Comparison: A financial statement reader will now be able to not only view the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original budget.

### FINANCIAL RESULTS

For the year ended June 30, 2004, the City's General Fund fund balance decreased slightly by approximately \$17,598. Overall, revenues increased approximately 11% from the prior year and expenditures increased approximately 16% from prior year. The City was able to offset the impact of decreasing state shared revenue receipts with potentially non-recurring revenue sources such as fees and grant monies. Of the expenditure increase, approximately 12% was from capital outlay expenditures related to the streetscape infrastructure that occurred in the current year.



## **FINANCIAL RESULTS (CONTINUED)**

Therefore, the City was able to keep other expenditure increases to 4%. The City was able to offset continuing increases in health insurance and pension funding costs by good expenditure control and proper allocation of administrative costs to benefiting funds. We wish to compliment the City Council, as well as department heads and staff, for their success with budgeting and financial management during these times of material reductions in funding from the State of Michigan. As many other communities, the City will continue to face financial challenges in its 2005 fiscal year. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. The City should continue to develop multi-year operational and capital plans.

## **STATE SHARED REVENUE**

State shared revenue accounts for approximately 25% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details actual state shared revenue for the City since fiscal year 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative forgone revenue the City experienced by not receiving state shared revenue payments that kept up with the annual increases in inflation since 2001.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Actual</u> <u>Revenue</u> <u>Sharing on 30</u> <u>Day</u> <u>Recognition</u>	<u>Revenue</u> <u>Sharing if City</u> <u>Received</u> <u>Inflationary</u> <u>Increases</u>	<u>Cumulative</u> <u>Lost Revenue</u> <u>Sharing</u> <u>Payments</u>
2001	\$467,728	\$467,728	
2002	\$449,129	\$482,695	\$33,566
2003	\$432,755	\$498,141	\$98,952
2004	\$429,688	\$505,613	\$174,877
2005 – Estimate	\$429,688	\$517,242	\$262,431

We will continue to update the City as developments occur.

#### **INTERNAL CONTROL AND FRAUD PREVENTION**

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Council, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures.

The Council should be pleased to note that the extra inquiries and testing that were required did not reveal any material problem not already addressed by the City. However, during the additional procedures, while we did note that the City does do a good job of preparing monthly bank reconciliations, the City could further enhance the monthly reconciliation process by adding the date of preparation to each of the reconciliations and ensuring the bank reconciliation reviewer signs off on the reconciliations.

## INTERNAL CONTROL AND FRAUD PREVENTION (CONTINUED)

Additionally, the City may want to further enhance its internal controls by consideration of additional segregation of duties. The City may want to consider better segregation of the duty of cash collection from the individuals that prepare bank reconciliations and/or can post journal entries.

## PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%
1999	1.6%		

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 18.4873 mills even though City Charter would allow the City to levy 20.00 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent, absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the

## **PROPERTY ASSESSMENT CAP (CONTINUED)**

Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

## **DEFINED BENEFIT PENSION PLAN**

The City currently participates in the Genesee County Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The City is required to contribute at an actuarially determined rate. Due to low investment returns in the recent years, the amount required to be contributed by the employer in order to properly fund the system has increased substantially. The required employer contribution increased from 5.22% of covered payroll to 14.96% of covered payroll starting January 1, 2005. As a result, the annual pension cost increased from \$21,819 during the year ended June 30, 2003 to \$70,864 during the year ended June 30, 2004. The City should continue to monitor and plan for the increased costs associated with properly funding the System.

## **MAJOR AND LOCAL STREET FUNDS**

As a reminder, Public Act 54 of 1999 (HB 4182) allows 100% of the money received from the State's Transportation Fund by a local unit's Major Street Fund to be transferred to the Local Street Fund if certain requirements are met. In order to transfer more than 25% of the funds, "...the city or village shall adopt a resolution with a copy to the department (MDOT) setting forth all of the following:

- (a) A list of the major streets in the city
- (b) A statement that the city is adequately maintaining its major streets
- (c) The dollar amount of the transfer
- (d) The local streets to be funded with the transfer."

## **SOLID WASTE COLLECTION AND DISPOSAL**

During April of 2004, the City approved a new contract for residential solid waste collection and disposal services. The City may want to consider recalculating the cost of the service, including overhead, and compare them to the revenues generated by resident fees. Depending on the results of this calculation, the City may need to reevaluate the fee being charged to its residents. We recommend that the City continue to perform this calculation and monitor the results.

## **WATER AND SEWER FUND**

The bond ordinance related to the water and sewer revenue bonds stipulates that the City will establish water and sewer rates on an annual basis that are reasonably expected to yield net revenues that will equal or exceed 90% of the aggregate debt service requirements for the forthcoming 12 month period. In years where the City plans to issue debt, the net revenues should be established at 120% of the aggregate debt service requirement. While this is a prospective test

## **WATER AND SEWER FUND (CONTINUED)**

(i.e. based on adopted budget), the City should review its actual results at the end of the year as compared with the bond covenants.

In addition, the bond ordinance stipulates that the City periodically transfer net revenue to a fund segregated for debt service payments so that the balance in the fund is equal to the lesser of the maximum annual debt service requirements on the bonds for any future year, 125% of average annual debt requirement on the bonds, or 10 percent of the proceeds plus the lesser of 5% of the proceeds or \$100,000. This fund must also include an additional amount which represents a portion of the next principal and interest payments due. The City has sufficient reserves established and should annually perform the covenant calculation to ensure continued compliance with the covenants or make excess funds available for debt service as a result of decreases in required reserves.

During the prior year, the City had a study done regarding the rate structure of the Water and Sewer Fund. We commend the City on taking steps to improve its rate structure to become more compliant with state regulations. However, we would encourage the City to continue with its review of the rate structure annually to ensure continued compliance with state and federal regulations for all users of the system.

It is our understanding that the water and sewer outstanding balance report is not reconciled to the general ledger on a periodic basis. The City should consider incorporating in its monthly procedures this reconciliation to ensure the general ledger is properly adjusted to the water and sewer subledger throughout the year.

## **PERSONAL PROPERTY TAX**

As noted in the financial statement footnotes for the current year, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). The City, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

## **ACH ARRANGEMENTS**

Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The City Council is required to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;

### **ACH ARRANGEMENTS (CONTINUED)**

- A statement that this individual is required to submit documentation as follows:
  - describe the goods or services purchased,
  - the cost,
  - date of payment, and
  - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment

### **OTHER ITEMS**

#### **UPCOMING REPORT CHANGES**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

#### **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2004, and is good for one year thereafter.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek



Kathryn J. Kercorian